null
Lucia A Keegan 07/31/2006 10:31:46 AM From DB/Inbox: Lucia A Keegan

Cable
Text:

UNCLAS SENSITIVE PARIS 05110

SIPDIS
cxparis:
    ACTION: AMBO
    INFO: POL OECD SCIO ECSO ECON TRDO ENGO AID ESCI FCSO
          MGT LABO IPCO DCMO ECNO

DISSEMINATION: OECDALL /1
CHARGE: ICAS

VZCZCFRO042
PP RUEHFR
DE RUEHFR #5110/01 2090652
ZNR UUUUU ZZH
P 280652Z JUL 06
FM AMEMBASSY PARIS
TO RUEHC/SECSTATE WASHDC PRIORITY 9868
INFO RUCPDOC/DEPARTMENT OF COMMERCE WASHDC PRIORITY
RUEAUSA/DEPARTMENT OF EDUCATION WASHDC PRIORITY
RUEAUSA/DEPARTMENT OF HHS WASHDC PRIORITY
RUEHRC/DEPARTMENT OF AGRICULTURE WASHDC PRIORITY
RUEATRS/DEPARTMENT OF TREASURY WASHDC PRIORITY
RUEHFR/OECD COLLECTIVE PRIORITY

UNCLAS SECTION 01 OF 03 PARIS 005110

SIPDIS

SENSITIVE

FROM USOECD PARIS

STATE PASS TO USTR

E.O. 12958:N/A
TAGS: AMGT EFIN AORC OECD FR
SUBJECT: THE OECD BUDGET: GETTING TO ZERO

REF: A)State 15194 B)OECD Olisnet document C(2006)106

C) State (July 13 Council instructions)

¶1. (SBU) Summary: The ambitious budget proposals by the new OECD Secretary General for the 2007-2008 biennium exceed the guidelines

SIPDIS
of the United States and other major contributors, resulting in a proposed increase in member contributions of 4.35 percent for 2007 that is simply unrealistic. In order to bring the current draft proposal into line with budget realities, we recommend a series of measures for Washington agencies' consideration, including (1) cutbacks in the "base" budget carried over from 2006 for several output areas, (2) reducing funding for the Secretary General's new health proposal, (3) disapproving the proposal for doubling the SYG's "allocation fund," (4) careful scrutiny of the salary increase of 4.9% that may be recommended for 2007, and (5) encouraging the Secretariat to find more savings in the budget of the Executive

SIPDIS
Directorate, which now takes 40% of all OECD spending.

¶2. (SBU) At the same time, we recommend continued support, including slight increases in funding, for output areas of high priority to the United States, for including export credits, consumption tax, statistics, structural indicators, a new EU desk and the Committee for Business and Entrepreneurship. End summary

A BUDGET TOO FAR

¶3. (SBU) New Secretary General Gurria's assumptions for the next

OECD budget biennium (Ref. B) call for a 4.35 % increase in Members' contributions for 2007 and an additional 2.22% increase for 2008. The current USG position is to support zero nominal growth (ZNG) in the budget - which, given inflation of about 2.1 % this year, means negative real growth - a shrinking of the Program of Work at the outset of the biennium. Even if the United States decided to go a step further and approve zero real growth (ZRG), to account for inflation, the Secretary General's proposal would still leave a gap of over 2% for the first year of the biennium, with the difference widening slightly (about a tenth of a percent) above ZRG for 2008. Japan, Germany, and the UK (the leading budget contributors after the United States) share our view that 4.35 percent is off the table, though only Germany joins us in advocating ZNG; the other major contributors could accept zero real growth (ZRG).

¶4. (SBU) Whether we support zero nominal growth or zero real growth, we need to consider carefully what we should recommend to the OECD in order to whittle down the ambitious proposals of a Secretary General whose election the United States strongly

SIPDIS
supported. To achieve a ZNG target, nearly 7 million euros (ME) in proposed expenditures would need to be eliminated to keep Members' contributions at the 2006 level of some 157 ME. The Mission sets out below for Washington agencies' consideration possible ways to deal with the budget proposal.

CUTS IN THE BASE BUDGETS FOR LOWER PRIORITIES

¶5. (SBU) Getting agreement on cuts will not be an easy task, even with the use of Qualified Majority Voting (QMV) -- budget debates were long and sometimes acrimonious in the run-up to the current biennium, despite the availability even then of QMV. In any case, the entire 2007-2008 budget must ultimately be approved by consensus. We can propose either across-the-board cuts in some or all output areas, or differentiated cuts, taking into consideration the importance of the area and the concerns of other member countries. The most obvious candidates for cuts would be those output areas which the United States and other member countries low-ranked in the latest Medium Term Orientations survey (Refs A and C). across-the-board. On this basis, here are possible cuts from the Part I budget (funded through mandatory contributions from all Members) that the United States could propose. The numbers (e.g., 1.2.4) indicate the specific Output Area of the PWB.

-- 1.2.4 Tourism: The Secretary General has already proposed moving Tourism from Part I to Part II (Part II is funded by interested members only). Tourism received only a modest 35,000 euros in Part I funding in 2006, but the SYG's proposal has been strongly opposed by Portugal (in the lead) and several other countries. Realistically, shunting Tourism to Part II gains little in euro terms, and the symbolic benefit from streamlining could be offset by the political cost of trying to make this happen. This would be a very hard sell, even with the use of QMV (where at least 65% of Members would need to support the proposal, and three or more Members representing at least 25% of the budget can block). US agency: Department of Commerce.

-- 2.1.3 Educational system policies and practices: In the MTO, we recommended decreased funding, with the comment that little of the work done in this area is of interest to the USG. By Member votes, it ranked #19; on a share-of- contributions basis it was near the bottom. There was a Part I base budget of 454,000 euros in 2006. It may not be easy to convince other members to reduce the base unless it is part of a package of across-the-board cuts. US agency: Department of Education.

-- 2.2.3 Welfare and Social Inclusion: The United States and one other country recommended in the MTO reduced funding for this area, which had a 2006 base of 1.5 ME. Five countries advocated increased funding; the rest wanted no change. This might be a hard sell but could be a target if we advocated an across-the-board cut. US Agency: HHS/Department of Labor.

-- 2.3.4 Decoupling Environmental Pressures from Economic Growth: Low-ranked by the United States and by other countries in the MTO; the United States recommended reduced funding. The 2006 base is 1.3 ME. We recommend proposing a reduction in the base. US agency:

EPA.

-- 3.1.2 Stakeholder Bridge Building: Here, in his only proposal for a reduction aside from that related to Tourism, the Secretary General calls for slashing the 2006 base budget (1.4 ME) by nearly half, by 600,000 euros. We applaud the principle of reallocating funding from lower to higher-priority areas, but believe the pain should be shared by other low-ranked output areas -- such as those set out above and below. The United States supported in the MTO cutting funding for Stakeholder Bridge Building, but in order that the funds could be allocated to other Trade output areas. The Trade Directorate currently receives a very small share of Part I funding -- 3% -- and is last among the Directorates in terms of number of staff, making it relatively less able to take a substantial cut without serious repercussions for all its work. The Doha negotiations may be on hold, but the OECD still has important work to do in advocating for trade liberalization. Lead US agency: USTR.

-- 4.3.3 Tax Administration: In the MTO, the United States recommended reduced funding for this Output Area. In terms of number of Members responding, it was mid-ranked; by share of budget contribution, it ranked near the bottom. The Secretary General is proposing upping funding by 113 KE annually, with the additional money to come from the Central Priorities Fund. (The total CPF has been set at 2.3 ME per year for 2007-08.) We recommend not supporting the CPF bid plus a cut from the 2006 base of 515,000 euros. US agency: Department of Treasury.

-- 4.2.2 Finance, Insurance and Pensions: The United States voted in the MTO to reduce funding for this Output Area. It was mid-ranked by Members. Last year's base budget was large: 1.9 ME. This should be a prime area for a reduction in the base. The Secretary General, however, has proposed a reallocation of 113 KE

SIPDIS
annually, an increase, for this area as a reallocation for an increase in staff. (Separately, he has also proposed the CPF 260 K (2007) and 291 (2008) short term funding for development of "financial literacy guidelines.") We can support cuts in that large 2006 base and still endorse the separate, short-term CPF proposal. Lead US agency: Department of Treasury

CUTS IN THE SECRETARY GENERAL'S PROPOSED INCREASES

¶6. (SBU) The Secretary General has proposed doubling his current "allocation fund" from 600,000 euros annually to 1.2 ME. How these funds are spent is completely at the SYG's discretion: no approval from or consultation with Council is needed (though in practice, he takes into account Council views). The Secretary General's Allocation Fund is intended allow the Secretary General to respond quickly to emerging issues. In a very tight budget biennium, we believe doubling the fund sends the wrong signal, and recommend opposing any increase in the fund, whether as a reallocation or as new funding.

¶7. (SBU) The Secretary General's proposed long-term re-allocations are all increases since they do not specify any Output Area from which funds are being reallocated. Long-term allocations, once approved, become part of future base budgets.

-- In particular, the Health proposal of 791,000 euros annually (to be shared by 2.4.1 Monitoring Health System Performance and 2.4.2 Achieving High Performance Health Systems) needs careful examination. It is the largest single proposed "reallocation," and one of the Secretary General's announced personal priorities. We have given qualified support to the proposal, pointing out that the United States believes that, in health, OECD's core strengths lie in collecting valid, comparable, and relevant data, and in developing useful quality indicators that permit comparisons of health care across countries -- rather than in comparing policies among countries. In light of the tight budget, we should consider whether to support it for a lesser amount. US agency: HHS

SALARY CUTS AND POST SUPPRESSIONS

¶8. (SBU) Salaries account for 80 % of the OECD's budget. The Secretariat estimates that the Coordinating Committee on

SIPDIS
Remuneration (CCR), the international organization tasked to recommend salary adjustments for the OECD, will recommend an across-the-board increase of 4.9 percent for 2007, including (within the CCR methodology) a purchasing power parity adjustment of 2.0%. The OECD legal counsel has given his view that the OECD would be legally obligated to pay the CCR recommendation. Nevertheless, we recommend careful scrutiny of the recommendation and its methodology when it is made later this year. In addition, the CCR does not purport to instruct the OECD on how many employees it must hire; it only recommends what the pay increase should be for the employees on the rolls. As needed, the OECD can simply increase the vacancy rate, hold off hiring new employees, or, ultimately, suppress positions. (It should be borne in mind that all three options would negatively affect the work of the Organization and that any savings from the last would be reduced by the need to pay indemnities to employees dismissed, so-called "LOEs.") The OECD might also find savings outside the personnel area.

SAVINGS IN THE EXECUTIVE DIRECTORATE

¶9. (SBU) The Secretary General's proposal notes that his strategy is to finance reallocations "from savings from the corporate services area, " adding that "I have asked that all operational service budget pressures arising for 2007-2008 should be met, to the extent possible, within the currently available resources of the Executive Directorate (output group 6.3). We should endorse this principle and ask for more details than are now presented in the budget document. The largest single savings presented, however, is significant: 2.07 ME as a result of the end of a "Special Departure and Renewal Programme" (repayments to reserves for funds used in the late 1990s to finance staff departures). There are no cuts in staff or procurement proposed; given the Executive Directorate's large share of the Part I budget (39%) and the large number of staff (29%), we should consider whether to propose reducing its base budget.

US PRIORITIES: FULL STEAM AHEAD

¶10. (SBU) The US should continue to press for its priority work at the OECD (reftel C, para. 11). This includes increased or new resources for export credits (3.1.4), consumption tax (3.3.1) statistics (6.2.1), an EU desk in the Economics Department (1.1.2), support for the Committee on Business and Entrepreneurship (1.2.1) and for the Board of Auditors. We have already requested in addition consideration for a long-term reallocation to support aid effectiveness. Regarding Central Priority Fund and other short-term funding proposals, we have supported the proposal to strengthen the OECD website. We also support the Secretary General's initiatives on Global Relations, including an increase in staff for the Center for Cooperation for Nonmembers, and specified investment and regulatory reviews for major nonmembers, Russia, China, and India.

¶11. (U) Action requested: We ask that affected agencies carefully consider the draft PWB and provide reactions to EUR/ERA and post in August. The next Budget Committee meeting at the OECD is scheduled for September 14. The current OECD budget expires on December 31, 2006, so the entire PWB process is aimed at producing a consensus budget by that deadline. MORELLA